

How to Calculate Food Cost



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Part 1: Maximum Allowable Food Cost

Part 2: Actual Food Cost

Part 3: Potential Food Cost

Purpose of Maximum Food Cost

Sets a monthly budget for food

Checks if food costs are cutting into profit

Monthly Operating Budget

Add monthly expenses

Add target profit (reserved for owner)

Ignore food cost for now

Personal Finances Budget

Monthly budget for your household

Set affordable monthly restaurant cost

Lower operating expenses if necessary

Budget Percentages

Calculate each expense as % of total

Example:

- Salaried labor costs \$7,000 / month
- Total budget \$70,000
- $70,000 \div 7,000 = 10\%$ of budget

Final Calculation

$100\% - (\text{all expense \%s}) = \text{Max Food Cost \%}$

$\text{Max F. C. \%} \times \text{Total Budget} = \text{Max Food Cost (\$)}$

Example:

- Expenses are 85% of your \$70,000 budget
- Remaining 15% is Max Food Cost %
- $0.15 \times 70,000 = \$10,500$ Max Food Cost / month

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Weekly Assessment Period

Keep weekly records

Pick a day and time for your week start

— Business should be closed at week start

First step to assessing actual food cost

Opening Inventory

List all food supplies at start of week

Calculate \$ value of each item

- Purchase price x Fraction remaining
- E.g. \$100 of nuts, $\frac{1}{2}$ remaining = \$50 value

Closing Inventory

Track value of food stores at end of week

Same process as opening inventory

$$\begin{array}{c} \text{Closing inventory week 1} \\ = \\ \text{Opening inventory week 2} \end{array}$$

Weekly Food Sales

Manager adds total food sales per shift

Add these totals to find weekly sales total

Actual Food Cost %

Food Cost =

Opening Inv. + Purchases - Closing Inv.

Food Sales

Maximum vs. Actual Food Cost

If Actual cost $>$ Maximum:

Profit margin is smaller than planned

If Actual cost $<$ Maximum:

Profit margin greater than planned

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Total Cost per Item

(Food cost of ingredients) x (weekly # sold)

Example:

\$0.21 bun + \$0.80 eight oz. meat = \$1.01 burger

\$1.01 burger x 200 sold = \$202 spent to make burgers

Total Sales per Item

Sales price x weekly # sold = total sales

Repeat for each menu item

Example:

\$3 burger x 200 sold = \$600 sales

Potential Food Cost per Item

Ideal food cost (no waste) for each item:

$$\begin{aligned} &\text{Potential Food Cost} \\ &= \\ &\text{Total Cost} \div \text{Total Sales} \times 100 \end{aligned}$$

$$\begin{aligned} &\$202 \text{ cost} \div \$600 \text{ sales} \times 100 \\ &= \$33.7 \text{ ideal burger cost} \end{aligned}$$

Actual vs. Potential Cost

Potential: minimum you could have spent

Actual: often higher due to waste + spoilage

Improve practices to lower actual cost